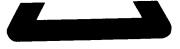
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	Guatemalan President Cerezo faces unprecedented inflation, , and a depressed economy. Although	
including adopting an IM granted a 50 percent government the money supply. Of all least from higher coffee presold before the price	mic advisers have recommended decisive economic reforms, MF stabilization program, so far he has temporized, and in fact vernment-wide pay increase and approved a large increase in II the Central American economies, Guatemala will benefit the and lower oil prices: much of Guatemala City's coffee was increase and it is only a small net importer of oil. Overall, is likely to do for 1986 is no growth, compared to a slight	
decline last year.		
in Honduras. Although I inaugural address, we be progress. It is unlikely, fiscal policies or unrealistast economic stabilization wage settlements. On b	President Azcona pledged to revitalize the economy in his elieve that domestic political opposition will preclude much for example, that he will be able to temper expansionary stic exchange rates. Organized labor, which torpedoed the on program in 1984, will intensify pressures for inflationary palance, we expect sustained high levels of US economic aid that about 2 percent for the second straight year.	
turmoil and stepped up new economic package a June 1984addresses s restore either domestic program restricts growth it also institutes new pr investment or production boost economic growth	nal economic growth for El Salvador because of the continued insurgent attacks against economic targets. The President's announced in late January—his first since taking office in some budget and trade problems, but is unlikely by itself to or international confidence in the economy. While the h in government spending and moderately devalues the colon, rice and exchange controls and offers nothing in the way of in incentives. Scheduled new infusions of US aid are likely to only slightly, from about 1 percent in 1985 to maybe 2	
percent this year.		
lacks the domestic supp he has recently annound foreign lenders' requirent commerical banks, the W President's proposals fo the Embassy. Delvalle, in does not have the musc	m outlook is poor in large part because President Delvalle port required to implement stabilization measures. Although ced his new economic program, it probably will not meet ments and the new loan and debt rescheduling deals with World Bank, and the IMF remain in jeopardy. Furthermore, the or labor reform prompted immediate opposition, according to installed by the Defense Forces and lacking any political base, the celeiver on promised reforms. Investment will further the rowth—which stagnated in 1985—will likely contract this year.	·
	* * *	
	2	

	NICARAGUA	
	d its line with new economic policies to deal with both critics	
reform law dropped the si	oblems. The US Embassy reports that a revision in the agrarian ize limitation on plots eligible for confiscation. Although this ommon Sandinista practice, it also reduces the legal obstacles to	
seizing properties of unco	operative private sector leaders while providing more land for discontented peasants. In addition, the regime has clamped	
down on vendors selling p	products above government-set prices in an ineffective attempt es and distribution problems. Facing resistance to	
controlsincluding the m	urder of a price inspector in Managuathe Sandinistas have nizations to aid in the campaign against "speculators."	
	began 1986 by closing the Catholic Church's radio station, assment of other opponents. The regime blamed the action on	
Radio Catolica's failure to	broadcast President Ortega's New Year's speech. National Directorate member Victor Tirado	
threat to the regime. Mea	the station would be closed and said the Church posed a major anwhile, the pro-government media took advantage of Cardinal the United States in January to accuse him of serving	2
Washington's policies and	backing the anti-Sandinista insurgents. Managua also of a counterrevolutionary ring and implicated a local priest, an	
opposition coalition party,	and an independent labor union in the conspiracy, according to admissas likely will use this plot to justify further detentions and	
· · · · · · · · · · · · · · · · · · ·	enemies. In addition, state security suspended publication of a	
semi-weekly political flyer	r and arrested its editors.	
semi-weekly political flyer	within the democratic coalition are undermining the	
Meanwhile, disputes effectiveness of the oppos Sandinistas caused a serio	within the democratic coalition are undermining the sition. Internal differences over a strategy for dealing with the bus split this month when the coalition leadership publicly	
Meanwhile, disputes effectiveness of the oppos Sandinistas caused a serio criticized a member partytalks with the regime, according to the control of the co	within the democratic coalition are undermining the sition. Internal differences over a strategy for dealing with the bus split this month when the coalition leadership publicly—the Social Christians—for participating in Spanish—sponsored ording to the US Embassy. The Social Christians now refuse to	
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	FL CALVADOR	
	EL SALVADOR	
with their largest offensive	ain the tactical initiative, the armed forces began the new year e operation in several months. "Operation Phoenix"——involving	
	aval, and artillery support—is directed at rebel strongholds in While initially planned to last about 30 days,	
	y continue in a scaled-down version for several more months. the operation, the armed forces claimed to have killed 41	
	illa or guerrilla supporters, and seized sizable caches of arms,	
the operation probably will	I disrupt guerrilla resupply and offensive operations for at least is unlikely to drive the insurgents from the Guazapa region	
permanently.	is animoly to allow the modification the Gadapa region	
	ered off during the latter half of the month following an	
Embassy reported that the	ign and the first transportation ban of the new year. The US nation's electrical power grid was significantly damaged by the	
of eastern El Salvador suff		
	cated that the guerrillas appear to be trying to make good on ally increase their operations in the economically vital western	
region.	that about 100 insurgents destroyed coffee bout \$1 million worth of coffee during an attack on a town in	
Sonsonate Department. It	is still unclear, however, whether these attacks represent the campaign in the west or whether the rebels are trying to	
disrupt the coffee harvest.		
	HONDURAS	
President Jose Azcor	na was inaugurated as scheduled on 27 January and agreed to	
give the opposition Nation	nal Party control of the Supreme Court as well as several policy press in return for its legislative cooperation, according to US	
•	greement reportedly promised that the government will pursue that includes firm opposition to the Sandinistas and efforts to	
	THAT RECURRED THE CORRESPOND TO THE NARRIESTAS AND REPORTS TO	
a bipartisan foreign policy resolve the border dispute	with El Salvador. Despite this agreement, we believe that	
a bipartisan foreign policy resolve the border dispute	with El Salvador. Despite this agreement, we believe that lent who controls only 46 of 134 congressional seats—is likely	2
a bipartisan foreign policy resolve the border dispute Azconaa minority Presid	with El Salvador. Despite this agreement, we believe that lent who controls only 46 of 134 congressional seats—is likely	2

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	25 X 1
reconciliation. The mediators and support group also offered their good offices to facilitate renewed talks between the US and Nicaragua. In a separate statement the Central Americans agreed to consider forming a regional parliament and to hold a	
Presidential summit in May.	25 X 1
Reports from various US Embassies point to contradictory interpretations of the Contadora declaration. Mexico and Colombia, as well as Nicaragua, apparently see implementation of the nine actions and a resumption of US-Nicaraguan talks as preconditions for further treaty talks. Honduras, on the other hand, envisions talks between the US and Nicaragua and between the Sandinistas and their opposition proceeding simultaneously with renewed negotiations on the draft treaty.	25 X 1
The Sandinistas will likely face more pressure to undertake internal reforms although they were able to defuse charges of blocking the negotiations and gained endorsement of their two key objectives in the treaty process—an end to the US military presence in the area and resumption of talks with the US. Meanwhile, differences in opinion over the nine proposed steps probably will divert attention from substantive negotiations on the draft treaty, at least for a while. Managua will use scheduled regional meetings to lobby the new governments in Guatemala, Honduras, and Costa Rica for more flexible terms and to	
press for bilateral accords.	25 X 1
	25 X 1
. 7	25 X 1

		25 X 1
		25 X 1
	NICARAGUAN MILITARY BUILDUP	
ate December	Cubans train Nicaraguan pilots on MI-8, MI-17, and	25X1 25X
	MI-24 helicopters, and four Soviet pilots conduct training exercises on AN-2 and AN-26 transport aircraft.	23%
		25 X 1
3 January	Soviet ship carrying unspecified military-associated cargo arrives in Corinto	225X1
	photography.	25 X 1
4 January	Imagery reveals two storage/support areas partially completed and possible bunkered storage site near completion at Esteli radar site.	25 X 1
3 January	Satellite imagery shows Nicaraguan ship Aracely,	25/1
January	carrying some 26 containers on deck general cargo, arrived in Puerto Cabezas from Mariel,	25X1
	Cuba. Nicaraguan ship <u>Nicarao</u> also seen in Puerto Cabezas.	25 X 1
11-12 January	Three AN-2 and two MI-2 helicopters observed on overhead imagery at Sandino Airfield were transported	
	to Two Top Bar mobile communications vans	₂₅ 25X 25X
	observed near Managua on overhead photograhy probably part of same convoy. Second convoy of 30	
	vehicles seen transporting probable helicopter components, according to same sources.	25 X 1 25 X 1
13 Janaury	Two short take-off and landing aircraft obtained by Interior Ministry from East Germany being assembled at Los Brasiles Airfield by East German technicians,	
	The aircraft reportedly	25 X 1
	will be used for reconnaissance and for transporting officials to sectors of country lacking good airstrips.	25X1 25X1
Mid-January	Soviet technicians assemble up to nine MI-8 and MI-25 helicopters at Sandino Airfield. Current	25X
	estimates of Sandinista helicopter inventory are 21 MI-8/17's and 12 MI-25's.	25X1
		25X
		25X1
		20/1

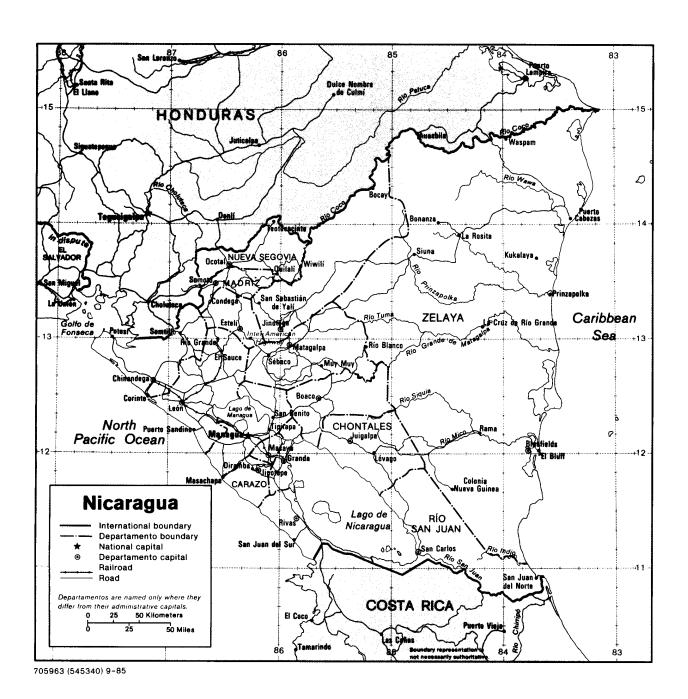
	25X′
arrested and tortured locals in southern Zelaya Department for allegedly aiding the rebels. In one incident a child was allegedly wounded by random Sandinista gunfire.	25X ²
10 January	
The proregime press reports two Sandinista soldiers received long prison terms for the October murder of an evangelical minister in Esteli. The progovernment evangelical organization applauded the sentences as proof of the regime's concern for human rights	25 X ′
16 January	
The Honduran military reports that Sandinista troops operating inside Honduras robbed a civilian family,	25X ²
18 January	
Proregime press reports that security officials suspend publication of Prisma, a news publication, for violating press censorship laws.	25X′
Speaking at a news conference during his recent visit to Guatemala, President Ortega denies his government systematically violates human rights, but admits that violations still occur, saying that 20 military men had been tried for such abuses	25X ⁻
19 January	
The US Embassy reports that regime harassment of the recently established Catholic Church human rights office has blocked investigations of complaints	25X ²
20 January	
Sandinista troops operating in Honduras killed a civilian and took her two sons back into Nicaragua.	25 X ′
operating in Hondards kinds a sisting and took not take some seek into the same seek into	25X1
21 January	
A US defense attache source in southern Zelaya Department reports that Sandinista troops arrested nearly 300 locals on suspicion of aiding rebels in the	05.77
area. 22 January	25X ²
22 January	25 X ^
	25X
	05.74
	25X1 25X

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		:
	on the Atlantic coast reports the regime enticed to return to Nicaragua from camps in Honduras with doccupy their traditional lands. Instead, the Sandinistas	
	p to force them to work in the local gold mines.	2
25 January		
		4
27 January		
		2
28 January		
,		
According to pres	s reports, four civilians were killed and several others	
wounded, including an	s reports, four civilians were killed and several others American Indian activist traveling with Miskito Indian rebels tic coast, when Sandinista troops fired rockets into a	
wounded, including an		2
wounded, including an along Nicaragua's Atlan	American Indian activist traveling with Miskito Indian rebels	2
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